2003

ANNUAL REPORT

Beaumont Select
CORPORATIONS

BEAUMONT SELECT CORPORATIONS INC.

NOTICE OF ANNUAL MEETING

Beaumont's Annual Meeting of holders of common shares will be held in the Borden Ladner Gervais LLP board room at 1000, 400 Third Avenue S.W. at Calgary, Alberta at 10:30 a.m., Calgary time on Wednesday, December 17, 2003.

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Corporate Directory

DIRECTORS

Winston Ho Fatt
Andrew Hyslop
Peter Kreutzer
Peter Farkas
Bruce Dorset

TRANSFER AGENT

Computershare Trust
Company of Canada
Calgary, Alberta

LEGAL COUNSEL

Borden Ladner Gervais LLP
Calgary, Alberta

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OFFICERS

Winston Ho Fatt
Chairman of the Board, and
Chief Executive Officer
Bruce Dorset
Vice Chairman of the Board
Andrew Hyslop
Corporate Secretary

AUDITORS

KPMG LLP
Calgary, Alberta

BANKERS

National Bank of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING

TSX Venture Exchange
Calgary, Alberta

STOCK SYMBOL

BMN.A

Corporate Profile

Beaumont Select Corporations Inc. is a management and investment corporation, which has significant investments in the food processing and real estate industries. Beaumont charges fees and interest on its investments to its subsidiary companies.

Real Estate Division

The Real Estate Division owns three industrial buildings, one in Winnipeg and the other two in Calgary, with a total area of approximately 110,000 square feet. The Corporation also owns 40% of a company that owns 15,000 square feet of office space in a building close to the downtown of Calgary as well as 91 acres of investment land close to high end residential developments in Calgary.

Food Processing Division

The Food Processing Division concentrates on providing high quality private label and branded products of a specialty nature in the frozen food and bakery products sectors. These products are distributed to food wholesalers and retailers in North America. The Frozen Food Unit is the largest processor of perogies and the largest private label processor of panzarottis in Canada, on a poundage basis. The Bakery Unit has fine product lines including high quality undecorated slab cakes, icings, Christmas cakes, nanaimo bars and layered cakes, swiss and jelly rolls, cake and yeast doughnut products, berry cups, crumbs and croutons and mini muffins. These products are sold to most major retail chains in Western and Central Canada. Approximately 12% of the sales are made in the U.S.A. and attempts are being made to sell more in Quebec and the Maritimes. The production facilities are all located in Western Canada.

The goal of the Food Processing Division is to provide its customers with high quality, private label and branded products comparable in quality to those of national brands at lower prices and with a higher level of service.

CORPORATE GOAL

The corporate goal of Beaumont Select Corporations Inc. is to increase operating income, net income and EBITDA by at least 5% on an annualized basis over a 6-year period and to enhance long-term shareholder value.

The chart below shows the progress we have made over the past six years.

6 YEAR FINANCIAL HIGHLIGHTS (in thousands of dollars except share and per share information)

	2003	2002	2001	2000	1999	1998
Sales	**$ 36,311**	$ 36,602	$ 35,026	$ 32,127	$ 30,867	$ 28,960
Operating Income (Loss)	**1,425**	1,109	1,411	1,456	1,222	1,088
Net Income (Loss)	**98**	83	652	417	1,027[3]	657[4]
Funds from operations	**3,199**	2,232	3,150	3,072	2,675[3]	1,632[4]
EBITDA before one-time expenses[1]	**4,251**[2]	3,727	4,100	3,108	3,564[3]	2,249[4]
Total Assets	**29,142**	29,679	28,116	25,196	24,862	22,554
Shareholders' Equity	**10,763**	10,921	11,086	10,100	10,071	9,650
Shares outstanding, end of year	**17,866,473**	18,139,473	18,523,973	19,344,473	20,079,830	22,555,575
Net Income (Loss) per share – basic	**0.00**	0.00	0.04	0.02	0.05[3]	0.03[4]
Funds from operations per share – basic	**0.18**	0.12	0.17	0.16	0.12[3]	0.08[4]
EBITDA per share – basic	**0.24**	0.21	0.22	0.16	0.18[3]	0.10[4]

Note 1: Earnings before interest, taxes, depreciation, amortization and special one-time expenses.
Note 2: An investment writeoff of approximately $705,000 has been excluded fromthe EBIDTA in 2003.
Note 3: These figures include the final settlement of $69,549 related to the payment on a corporate guarantee provided to a German bank.
Note 4: These figures include a one-time expense related to the payment of $700,000 on a corporate guarantee provided to a German bank and a one-time recovery of deferred taxes of $571,000.

Report to Shareholders

The Corporation had a successful year of operations for the fiscal year ended June 30, 2003. All divisions contributed positively to the operating income, which improved significantly on a year over year basis. This is attributable to the continuous effort of the Management in cost control, improving efficiency, and most of all, the initiatives taken in plant modernization of last year. Sales revenue was relatively unchanged compared to that of fiscal 2001/02. The net income improved over that of the previous year but was adversely affected by the one-time charges in other corporate activities as well as an accrued expense for future income taxes.

FINANCIAL HIGHLIGHTS

The Corporation maintained stable sales at approximately $36-million. However, operating income, income before taxes and net income improved to $1,425,000, $727000 and $98,000, in comparison to $1,109,000, 277,000 and $83,000 respectively in 2002.

Funds from operations strengthened by 43%, from $2,232,000 to $3,199,000 on a year-over-year basis, while EBITDA before one-time expenses was $4,251,000 in 2003 versus $3,727,000 in 2002.

The balance sheet continued to show improvements year over year.

The current ratio and debt to equity ratio were 1.31:1 and 1.71:1 respectively in 2003, compared to 1.08:1 and 1.72:1 in 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sales

Overall sales were relatively stable at approximately 36-million dollars, in comparison with last year. During the second quarter, the sales showed signs of improvement, especially in the Frozen Food unit, which was the result of promotional activities on products being restored to its normal level. However, sales returned to its normal level during the last two quarters of the year.

Margins

Operating income improved by 28% over last year, to $1,425,000 from $1,109,000. This improvement was due to the plant upgrade and improved line efficiency which minimized the effects of increases in labour, materials and other input costs.

Net income and funds from operations

All operating units provided positive cash flows during the past year.

While funds from operations improved significantly to $3,199,000 from $2,232,000 in 2002 (up 43%), net income was marginally up to $98,000 from $83,000 in 2002 (up 18%). Without the one-time non-cash write offs described below of approximately $700,000 from other corporate activities, the financial results would have been even better.

$400,000 of the write off related to the collapse of sales for a listed corporation in which we had invested. The corporation sold decorative glass. The sales collapse was due to sudden reduction in demand for glass by specialty office developers (typically targeting "dot com companies") and the substantial appreciation in the Canadian dollar over which the corporation had no control or answers. The other write down of approximately $300,000 recorded the unrealised reduction in the value of the balance of the Corporation's marketable securities portfolio at year end. At the time of writing of this Annual Report in early November 2003, the portfolio had recovered from the $300,000 write down with a $250,000 of realized gains and a further $300,000 of unrealized gains from the June 30, 2003 year end value.

EBITDA before special and one-time charges

EBITDA is defined as earnings before interest, taxes, depreciation and amortization, and special and one-time charges which Management views as items that do not arise as part of the normal day-to-day business operations or that could potentially distort the analysis of trends.

These earnings measures do not have a standardized definition prescribed by GAAP and are therefore not readily comparable to similar measures presented by other corporations even in the same industry.

The following table provides the reconciliation of EBITDA before the impact of special and one-time charges to EBITDA in 2003:

EBITDA before the following:	$4,251,000
Write-down marketable securities	(413,000)
Unrealized losses on marketable securities	(292,000)
EBITDA	$3,546,000

Operations

This was another rewarding but challenging year for the operations as well as for the Corporation as a whole. The Corporation was able to obtain some price increases to offset increases in most input costs. The Corporation faced an upsurge in input cost during the year including significant increases in flour, cooking oil, electricity, natural gas, insurance, and packaging. The Corporation took steps to minimize the impact by mechanizing further its production lines. The Corporation continues its practice of buying futures and buying in bulk to obtain the lowest possible prices.

Management continued to focus on improved efficiency to generate cost savings and increased profitability.

DIVISIONAL REPORTING

Real Estate Division

Over the years, the Corporation has seen an increase in real estate values in the areas where it owns properties. The total rentable space of the buildings was approximately 125,000 square feet. This includes15,000 square feet of office space held through a 40% investment in Somerset Properties Ltd. and 110,000 square feet of industrial space. All buildings were fully leased.

All the industrial buildings have a lease with affiliates at market rates, while the office building is now fully leased to third parties. Two of the three industrial buildings are in prime industrial areas in Calgary, Alberta, while the third one is in Winnipeg, Manitoba.

Effective and after the close of business day on June 30, 2003, Somerset Properties Ltd., a wholly owned subsidiary operating the office building at the outskirts of Calgary downtown, acquired a real estate property from an Officer of the Corporation and his family. The respective properties were evaluated by an independent third party appraiser, and the values were based on current market conditions. The acquisition, which involved an issuance of shares by the subsidiary and shareholder loans proportionate to the shareholding, is expected to enable the subsidiary to expand its growth potential and at a faster pace.

As a result of this transaction, the interest of the Corporation in the subsidiary has been diluted to 40%.

Food Processing Division

The Food Processing Division continues to grow steadily as new customers are acquired in both Canada and the United States, and as new products are successfully introduced.

The Food Processing Division continues to research new product opportunities and look for acquisition targets. In addition, it will continue to expand sales of existing products to a broader geographic customer base.

CORPORATE ACTIVITY

Effective July 1, 2002, the Corporation adopted the new Canadian accounting standard relating to stock-based compensation and other stock-based payments. The standard was applied prospectively for stock-based payments to non-employees and to employee awards of stock. The Corporation follows the fair value method for future awards to non-employees, as prescribed in the standard, to calculate a fair value of the stock granted and record that fair value as an expense over the term of the grant. The standard, while permitting the Corporation to continue the policy that no expense is recorded on the grant of stock options to directors and employees, required note disclosure of the impact on earnings per share had an expense been recorded. Refer to the accounting and disclosure of the stock-based compensation and other stock-based payments for details.

Effective July 1, 2002, the Corporation also adopted the new Canadian accounting standards related to goodwill and other intangible assets, which requires an impairment assessment to be performed at least on an annual basis. Using the discounted cash flow method, the Corporation completed its required initial and annual assessment of goodwill as of July 1, 2002, and the initial tests did not reveal any impairment as at June 30, 2003.

The directors and management feel that the shares of the Corporation are trading on the market at less than their fair value and the Corporation is continuing the repurchase of shares under a normal course issuer bid. As of June 30, 2003, under its normal course issuer bid, the Corporation had repurchased 328,000 shares for a cost of $226,625. Since the beginning of the share repurchase program five years ago, the Corporation has repurchased approximately 3,268,000 shares from the market in a continued effort to improve shareholder value.

In June 2003, the Corporation received approval from The Canadian Venture Exchange to acquire an additional 893,349 shares, representing approximately 5% of the issued and outstanding class "A" shares, through a sixth Normal Course Issuer Bid. This process has commenced on July 2, 2003 and will terminate on the earlier of July 1, 2004 or such date as all of the Bid Shares are purchased pursuant to the "Bid Period" stipulated herein.

SUBSEQUENT EVENTS

Subsequent to year-end, the Corporation repurchased 113,000 shares for cash consideration of approximately $122,000.

2004 OUTLOOK

Sales

Management expects sales to grow by approximately 5% this year as several new products developed over the past two years, seem to have gained acceptance by customers and the market place. The Frozen Food and Bakery units will continue their expansion into new private label territory to reach a broader customer base, both geographically and internationally.

Margins

The Corporation is continuing to focus on reducing unit costs by further mechanization and by introducing new products with better margins. However, the Corporation continues to face higher than normal input costs because of increase in commodity prices and service charges, such as flour, cooking oil, packaging, utility, insurance, etc. The Corporation will continue to take steps to minimize the impact by mechanizing further its operations.

Net income and cash flow

The Corporation hopes to duplicate, at a minimum, the operating income and funds flow results of fiscal year 2002/2003. Preliminary indications are that the cash flow for the first quarter of 2003/2004 is close to that of the same period for the 2002/2003 fiscal year. Every effort is being made to increase sales and reduce costs to improve the bottom line.

The Corporation continues to strive through its marketable securities portfolio to generate income to absorb its corporate costs. So far for this year it is having some success.

Forward-Looking Statements:

This Annual Report may contain forward-looking statements including statements regarding the business and anticipated financial performance of the Corporation. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results and performance of the Corporation to be materially different from the future results and performance expressed or implied by such forward-looking statements. A number of factors could affect the actual results, including but not limited to, input costs, competition, and access to capital market. In light of the significant uncertainties inherent in the forward-looking statements, the inclusion of such information should not be regarded as a representation by the Corporation that the objectives and plans of the Corporation will be achieved. The Corporation will not necessarily update the forward-looking statements as information become available.

A NOTE OF THANKS

We wish to take this opportunity to thank all of our managers, supervisors and employees who, as associates, worked so hard to make this another successful year.

Winston Ho Fatt
Chairman and Chief Executive Officer

Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Beaumont Select Corporations Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The Corporation's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. In recognizing that the Corporation is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been prepared with this in mind and within the information presented in the financial statements.

KPMG LLP, Chartered Accountants, who were appointed by the shareholders of the Corporation to serve as the Corporation's external auditors, have examined the consolidated financial statements of the Corporation for the years ended June 30, 2003 and June 30, 2002.

The Audit Committee has reviewed these statements with management and the auditors, and has reported to the Board of Directors. The Board has approved the consolidated financial statements of the Corporation herein.

Winston Ho Fatt
Chairman and Chief Executive Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Beaumont Select Corporations Inc. as at June 30, 2003 and 2002 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at June 30, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
September 12, 2003

Consolidated Balance Sheets

June 30, 2003 and 2002

	2003	2002
ASSETS		
Current assets:		
Cash	**$ 1,149,416**	$ 737,037
Marketable securities (note 2)	**4,353,723**	4,002,460
Accounts receivable	**2,424,313**	2,469,104
Inventory (note 3)	**2,959,643**	3,030,859
Prepaid expenses	**211,994**	269,498
Current portion of loans receivable (note 4)	**40,603**	79,111
	11,139,692	10,588,069
Loans receivable (note 4)	**170,000**	98,000
Investment in and due from affiliated company (note 5)	**427,998**	–
Future income taxes (note 11)	**–**	94,000
Property and equipment (note 6)	**15,674,210**	16,980,093
Goodwill	**925,624**	925,624
Intangible assets (note 7)	**804,832**	992,954
	$29,142,356	$29,678,740
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank loans (note 8)	**$ 1,212,193**	$ 2,232,751
Accounts payable and other liabilities (note 2)	**5,911,396**	5,217,166
Current portion of long-term debt (note 8)	**1,352,722**	2,356,974
	8,476,311	9,806,891
Due to related parties (note 5)	**221,911**	185,163
Future income taxes (note 11)	**445,500**	–
Long-term debt (note 8)	**9,236,036**	8,765,664
Shareholders' equity:		
Share capital (note 9)	**8,409,940**	8,538,442
Retained earnings	**2,352,658**	2,382,580
	10,762,598	10,921,022
Commitment and contingency (notes 15 and 16)		
Subsequent event (note 18)		
	$29,142,356	$29,678,740

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Winston Ho Fatt
Director

Peter Kreutzer
Director

Consolidated Statements of Operations and Retained Earnings

Years ended June 30, 2003 and 2002

	2003	2002
Revenues (notes 5 and 13)	**$ 36,311,478**	$ 36,601,885
Cost of sales:		
Direct expenses	**30,468,462**	31,486,717
Depreciation and amortization	**1,477,782**	1,383,064
	31,946,244	32,869,781
Operating margin	**4,365,234**	3,732,104
Operating expenses:		
Corporate and administrative (note 5)	**1,238,431**	955,362
Interest on long-term debt	**763,011**	727,191
Royalty (note 5)	**360,000**	360,000
Interest and bank charges (note 5)	**244,015**	181,660
Depreciation and amortization	**335,215**	398,730
	2,940,672	2,622,943
Income before the following	**1,424,562**	1,109,161
Other income (expenses):		
Write-down of marketable security (note 2)	**(412,666)**	–
Unrealized losses on marketable securities (note 2)	**(291,843)**	–
Investment income (loss)	**73,169**	(28,527)
Write-down of loans receivable (note 4)	**(42,000)**	(147,402)
Loss on sale of marketable securities	**(32,730)**	(3,101)
Foreign exchange (loss) gain	**8,304**	(41,657)
Other expenses (note 12)	**–**	(496,955)
Write-down of intangible assets (note 7)	**–**	(114,659)
	(697,766)	832,301
Income before income taxes	**726,796**	276,860
Income taxes (note 11):		
Current	**119,769**	91,498
Future	**509,000**	102,165
	628,769	193,663
Net income	**98,027**	83,197
Retained earnings, beginning of year	**2,382,580**	2,366,683
Excess of consideration paid over stated value of shared redeemed (note 9)	**(75,023)**	(67,300)
Excess of deficiency in investment in affiliated company over the net equity in affiliated company (note 5)	**(52,926)**	–
Retained earnings, end of year	**$ 2,352,658**	$ 2,382,580
Net income per share (note 9):		
Basic	**$ –**	$ –
Diluted	**$ –**	$ –

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended June 30, 2003 and 2002

	2003	2002
Cash provided by (used in):		
Operations:		
Net income	$ 98,027	$ 83,197
Add (deduct) items not requiring cash:		
Depreciation and amortization	1,812,997	1,781,794
Write-down of marketable security	412,666	–
Unrealized losses on marketable securities	291,843	–
Future income taxes	509,000	102,165
Write-down of loans receivable	42,000	147,402
Loss on sale of marketable securities	32,730	3,101
Write-down of intangible assets	–	114,659
Funds from operations	3,199,263	2,232,318
Net change in non-cash working capital balances (note 17)	(399,156)	(110,552)
	2,800,107	2,121,766
Investing:		
Purchase of property and equipment	(881,638)	(3,251,656)
Expenditures on intangible assets	(147,093)	(253,457)
Decrease (increase) in loans receivable	(75,492)	815
Net cash paid on sale of interest in wholly-owned subsidiary (note 5)	(27,272)	–
	(1,131,495)	(3,504,298)
Financing:		
Increase (decrease) in bank loans, net of repayments	(1,020,558)	280,427
Repurchase and cancellation of Class A common shares	(226,625)	(248,285)
Issue of Class A common shares	23,100	–
Increase (decrease) in long-term debt, net of repayments	(68,898)	1,368,383
Increase in due to related parties	36,748	28,712
	(1,256,233)	1,429,237
Increase in cash during the year	412,379	46,705
Cash, beginning of year	737,037	690,332
Cash, end of year	$ 1,149,416	$ 737,037

See accompanying notes to consolidated financial statements.

Years ended June 30, 2003 and 2002

GENERAL:

Beaumont Select Corporations Inc. (the "Corporation") is incorporated under the Business Corporations Act of Alberta. The Corporation's primary operations relate to food processing and distribution and real estate and rental properties.

1. SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles. In the preparation of these consolidated financial statements, management has made estimates and assumptions that affect the recorded amounts of certain of the Corporation's assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. The most significant estimate relates to determining the cost recoverability of the Corporation's goodwill and other intangible assets, which are principally based upon estimated future cash flows. While it is the opinion of management that these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below, actual results could differ from the estimates made.

(a) Basis of presentation:

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Certain of the comparative figures have been reclassified to conform to the current year's financial statement presentation.

(b) Inventory:

Inventory is recorded at the lower of average cost and market, with market determined at net realizable value.

(c) Property and equipment:

Property and equipment are recorded at cost upon acquisition. Depreciation on property and equipment is provided using principally the straight-line method over the estimated useful lives of the assets as follows:

Asset	Estimated Useful Life
Production equipment	10 to 20 years
Buildings	10 to 20 years
Leasehold improvements	10 years
Vehicles	6 to 10 years

(d) Goodwill and other intangibles:

Goodwill represents the excess of cost over the fair value of net assets acquired. Other intangible assets relate to deferred financing costs associated with the refinancing of long-term debt and deferred development costs associated with the development of new commercially viable product lines and packaging designs. Effective July 1, 2002 the Corporation was required to adopt the new accounting standards with respect to goodwill and other intangible assets, which require that the amortization of goodwill be replaced with an annual test for impairment and that intangible assets other than goodwill be amortized over their useful lives. Other intangibles relating to deferred development costs are amortized on a straight-line basis over periods ranging from five to ten years and deferred financing costs are amortized over the term of the corresponding debt facility. Management tests goodwill and other intangible assets for impairment at the end of the Corporation's fiscal year, taking into consideration the nature of the industry and the circumstances which might impair the value. The amount of impairment, if any, is determined based on estimated future cash flows. Any impairment in the value of the goodwill or other intangibles is charged in the period when impairment is determined.

1. SIGNIFICANT ACCOUNTING POLICIES: *continued*

(e) Foreign currency translation:

Integrated foreign operations have been translated into Canadian dollars using the temporal method as follows:

Monetary items – exchange rates in effect at the balance sheet date;

Non-monetary items – exchange rates in effect on the dates of those transactions; and

Revenues and expenses – at the average exchange rate prevailing during the year; except for depreciation and amortization, which is translated at prevailing rates when the respective assets were acquired. Gains and losses arising from the translation are included in income for the current year.

(f) Marketable securities:

Marketable securities are stated at the lower of cost and market value.

(g) Per share amounts:

Basic net income per share is calculated using the weighted average number of common shares outstanding during the year. Diluted net income per share is calculated following the treasury stock method assuming that the proceeds obtained upon the exercise of options would be used to purchase common shares at the average market price during the period.

(h) Income taxes:

The Corporation follows the liability method of accounting for income taxes. Under this method, future income tax liabilities and future income tax assets are recorded based on temporary differences – the difference between the carrying amount of an asset and liability in the consolidated balance sheet and its tax basis using income tax rates enacted at the balance sheet date. The effect of changes in rates on future income tax liabilities and assets is recognized in the period that the change occurs.

(i) Stock based compensation:

Effective July 1, 2002, the Corporation prospectively adopted the new Canadian accounting standards with respect to stock based compensation. Proceeds received on the exercise of stock options are included in share capital and no compensation expense is recognized. For stock based compensation to non-employees, the Corporation calculates a fair value using an option pricing model and records the expense to earnings over the term of the option.

(j) Long-term investment:

The Corporation's long-term investment represents a 40% ownership interest in Somerset Properties Ltd. ("Somerset") (see note 5) and is accounted for using the equity method. Under this method, the investment account was recorded at its carrying value on June 30, 2003, the date in which the Corporation sold 60% of its ownership interest in Somerset, and is adjusted by the Corporation's proportionate share of Somerset's net earnings or losses and dividends received. The carrying value of the long-term investment is periodically reviewed by management to determine if the facts and circumstances suggest that it may be permanently impaired. Any impairment identified through this assessment would result in a write-down of the investment and a corresponding charge to income.

(k) Revenue recognition:

Revenue from product sales are net of estimated returns, rebates, allowances and credit notes and are recorded when delivery has been made and legal ownership of the product has been transferred to the customer.

2. MARKETABLE SECURITIES:

At June 30, 2003, the Corporation held marketable securities with a net book value in excess of fair market value totaling $704,509 (year ended June 30, 2002 – $nil). The write-down was comprised of a write-down of a specific security totaling $412,666 as well as unrealized losses on other marketable securities totaling $291,843. As a result, the net book value at June 30, 2003 equals its fair market value of $4,353,723 (June 30, 2002 net book value – $4,002,460; fair market value – $4,074,000). In addition, the Corporation has a margin account totaling $2,305,066 (June 30, 2002 – $1,552,730), which is included within accounts payable and other liabilities.

2. MARKETABLE SECURITIES: *continued*

The following is a continuity of marketable securities for the years ended June 30, 2003 and 2002:

	2003	2002
Opening net book value:	**$ 4,002,460**	$ 2,582,703
Additions, net of dispositions	**1,458,617**	1,422,858
Loss on sale of marketable securities	**(32,730)**	(3,101)
Write-down of marketable securities	**(412,666)**	–
Unrealized losses on marketable securities	**(291,843)**	–
Transfer of marketable securities on disposition of Somerset (note 5)	**(370,115)**	–
Ending net book value	**$ 4,353,723**	$ 4,002,460

3. INVENTORY:

	2003	2002
Raw materials	**$ 1,917,091**	$ 1,578,274
Finished goods	**1,042,552**	1,452,585
	$ 2,959,643	$ 3,030,859

4. LOANS RECEIVABLE:

	2003	2002
Loans receivable, bearing interest at rates varying from non-interest bearing to 5% per annum, with $70,000 secured by a second charge on all of the assets of the debtor and $100,000 bearing interest at 5% per annum secured by specific marketable securities with a fair market value of approximately $116,000 at June 30, 2003. The remaining balance is unsecured with varying repayment terms	**$ 210,603**	$ 177,111
Less current portion	**40,603**	79,111
	$ 170,000	$ 98,000

Of the outstanding loans receivable, $100,000 (2002 – $nil) is due from an officer and shareholder of the Corporation. During the year ended June 30, 2003 loans totaling $42,000 (2002 – $147,402) were considered uncollectible and written-off.

5. RELATED PARTY TRANSACTIONS:

(a) Investment in and due from affiliated company:

Effective June 30, 2003 the president of the Corporation sold land with a carrying value of approximately $170,000 and marketable securities with a carrying value of $100,000 to Somerset in exchange for a non-interest bearing note payable in the amount of $1,025,000. In addition, Somerset issued 150 common shares for proceeds totaling $150 to the president of the Corporation. As such, the Corporation's ownership interest in Somerset changed from 100% to 40%. As these transactions were conducted between related parties, no gain or loss on the disposition of the Corporation's ownership interest was recognized and the difference between the proportionate carrying value of the assets and liabilities sold versus the net deficiency in the equity of Somerset was recorded as a charge to retained earnings totaling $52,926 including future income taxes totaling $30,500. Details of the amount due from and investment in Somerset are as follows:

5. RELATED PARTY TRANSACTIONS: *continued*

	2003
Due from Somerset, unsecured, non-interest bearing with no specific terms of repayment	$ 683,654
Less deficiency in investment in Somerset	(255,656)
	$ 427,998

(b) Due to related parties:

	2003	2002
Convertible debenture due to a shareholder and former officer of the Corporation, unsecured, bearing interest at 10% per annum compounded annually and payable on a monthly basis, with the principal portion repayable in full on July 1, 2007. The debenture is convertible at any time up to maturity, at the option of the holder, into 166,667 Class A common shares	$ 100,000	$ 100,000
Promissory notes due to shareholders of the Corporation, $53,595 bears interest ranging from 5 to 10% per annum and $68,316 bears interest at 10% to 12% per annum. The notes are unsecured and with no fixed terms of repayment	121,911	85,163
	$ 221,911	$ 185,163

(c) Other related party transactions are as follows:

	2003	2002
(i) Royalty charged by a company in which the chairman of the Corporation is the president but not a shareholder	$ 360,000	$ 360,000
(ii) Management fees charged by shareholders of the Corporation included in corporate and administrative expenses	$ 763,000	$ 653,000
(iii) Interest revenue on amounts due from an officer and shareholder of the Corporation included in revenues	$ 5,000	$ –
(iv) Interest expense on amounts due to shareholders of the Corporation	$ 15,530	$ 13,000
(v) Consulting fee paid to a shareholder and former officer of the Corporation included in corporate and administrative expenses	$ 64,300	$ 42,900

6. PROPERTY AND EQUIPMENT:

2003	Cost	Accumulated depreciation	Net book value
Production equipment	$ 23,174,412	$ 11,697,851	$ 11,476,561
Buildings	3,459,156	1,491,200	1,967,956
Leasehold improvements	2,346,469	1,231,212	1,115,257
Vehicles	834,133	634,697	199,436
Land	915,000	–	915,000
	$ 30,729,170	$ 15,054,960	$ 15,674,210

6. PROPERTY AND EQUIPMENT: *continued*

2002	Cost	Accumulated depreciation	Net book value
Production equipment	$ 22,344,358	$ 10,486,640	$ 11,857,718
Buildings	4,168,590	1,443,186	2,725,404
Leasehold improvements	2,198,003	1,027,940	1,170,063
Vehicles	781,320	619,412	161,908
Land	1,065,000	–	1,065,000
	$ 30,557,271	$ 13,577,178	$ 16,980,093

7. INTANGIBLE ASSETS:

2003	Cost	Accumulated amortization	Net book value
Deferred development costs	**$ 2,187,334**	**$ 1,470,494**	**$ 716,840**
Deferred finance costs	**324,037**	**236,045**	**87,992**
	$ 2,511,371	**$ 1,706,539**	**$ 804,832**
2002			
Deferred development costs	$ 2,084,616	$ 1,182,667	$ 901,949
Deferred finance costs	279,662	188,657	91,005
	$ 2,364,278	$ 1,371,324	$ 992,954

As at June 30, 2003, the Corporation recorded a write-down of $nil (2002 – $114,659) as a result of a permanent impairment.

8. BANK LOANS AND LONG-TERM DEBT:

(a) Bank loans:

The bank loans are revolving lines of credit, repayable on demand, bearing interest at rates ranging from the bank's prime rate plus 1/2% to the bank's prime rate plus 1¼% per annum and are secured under various general security agreements covering, all present and after-acquired property of the Corporation, an assignment of life insurance on an officer and shareholder of the Corporation, a general assignment of accounts receivable and inventory, personal guarantees from an officer and shareholder of the Corporation and a postponement of claim by the Corporation.

(b) Long-term debt:

	2003	2002
Term loans, repayable in monthly principal instalments of approximately $162,000 plus interest ranging from the bank's prime rate plus 1% to prime plus 2% per annum and to the lenders' cost of funds plus 2¼% to 2¾% per annum and secured as described in note 8(a)	**$ 6,882,151**	$ 7,106,672
Mortgages, repayable in monthly principal instalments of approximately $20,750, bearing interest at rates ranging from the lenders' cost of funds less 1/2% to the lenders' cost of funds plus 2-1/2% per annum and secured by the buildings (see note 6). Mortgages are not subject to renewal until dates ranging from February 23, 2006 to January 15, 2008	**3,524,150**	3,507,436

8. BANK LOANS AND LONG-TERM DEBT: *continued*

	2003	2002
Note payable of U.S. $150,000, non-interest bearing, unsecured, and paid in full during the year ended June 30, 2003	–	235,057
Capital leases, due 2005 through 2007, payable monthly, with interest rates ranging from 8% to 12% per annum and secured by certain equipment with a net book value at June 30, 2003 totaling approximately $244,000 (2002 – $313,000)	**182,457**	273,473
	10,588,758	11,122,638
Less current portion	**1,352,722**	2,356,974
	$ 9,236,036	$ 8,765,664

Except as specifically disclosed, the Corporation has pledged as security for the various mortgages and loans, all of the assets of the Corporation.

The Corporation is required to make future principal payments as follows:

	Long-term debt	Capital leases	Total
2004	$ 1,271,104	$ 81,618	$ 1,352,722
2005	1,532,400	59,064	1,591,464
2006	1,526,888	23,397	1,550,285
2007	1,523,400	18,378	1,541,778
2008	1,372,811	–	1,372,811
Thereafter	3,179,698	–	3,179,698
	$ 10,406,301	$ 182,457	$ 10,588,758

9. SHARE CAPITAL:

(a) Authorized:

(i) Unlimited Class A voting common shares; and

(ii) 100,000,000 non-voting Class B shares, Series 2.

(b) Class A common shares issued:

	2003		2002	
	Shares	**Amount**	Shares	Amount
Balance, beginning of year	**18,139,473**	**$ 8,538,442**	18,523,973	$ 8,719,427
Redemption of shares	**(328,000)**	**(151,602)**	(384,500)	(180,985)
Issued for cash	**55,000**	**23,100**	–	–
Balance, end of year	**17,866,473**	**$ 8,409,940**	18,139,473	$ 8,538,442

During the year ended June 30, 2003 the Corporation acquired 328,000 (2002 – 384,500) Class A common shares for consideration consisting of cash proceeds totaling $226,625 (2002 – $248,285). As the consideration rendered was in excess of the stated value of the shares, the amount in excess totaling $75,023 (2002 – $67,300) was recorded as a reduction of retained earnings.

9. SHARE CAPITAL: *continued*

(c) Stock options:

The Corporation has a stock option plan whereby officers, directors, employees and consultants may be granted options to purchase Class A common shares of the Corporation. As at June 30, 2003 options have been granted to purchase 783,724 (2002 – 858,724) Class A common shares at prices ranging from $0.50 to $0.53 until expiry on dates ranging from August 16, 2004 to September 26, 2007. Options vest at periods ranging from immediately to three years and have a term of five years to expiry.

	2003			2002		
	Number		Weighted average exercise price	Number		Weighted average exercise price
Outstanding options, beginning of year	**858,724**	**$**	**0.50**	953,724	$	0.50
Granted	**60,000**		**0.52**	–		–
Exercised	**(55,000)**		**0.42**	–		–
Expired / cancelled	**(80,000)**		**0.42**	(95,000)		0.54
Outstanding options, end of year	**783,724**	**$**	**0.52**	858,724	$	0.50
Options exercisable, end of year	**743,724**	**$**	**0.52**	858,724	$	0.50

Options Range of Exercise Price	Outstanding June 30, 2003	Weighted average remaining contractual life (years)	Exercisable June 30, 2003		Weighted Weighted average exercise price
$0.50	333,724	1.00	333,724	$	0.50
$0.53	390,000	2.33	390,000	$	0.53
$0.52	60,000	4.25	20,000	$	0.52
$0.50 to 0.53	783,724	1.85	743,724	$	0.52

(d) Per share amounts:

The weighted average number of Class A common shares outstanding during the year ended June 30, 2003 was 17,906,176 (year ended June 30, 2002 – 18,316,140). The dilutive effective of options for the year ended June 30, 2003 was 218,851 (year ended June 30, 2002 – 205,449).

10. STOCK BASED COMPENSATION:

The Corporation has a stock option plan whereby officers, directors, employees and consultants may be granted option to purchase Class A common shares of the Corporation.

For awards granted to all employees, the Corporation applies the intrinsic value based method of accounting for stock-based compensation. Accordingly, no compensation cost has been recognized for the options granted.

Had compensation cost been determined based on the fair value of the options at the grant dates the Corporation's net income and earning per share would have been adjusted to the pro forma amounts noted below:

Pro forma net income:		
Net income as reported	$	98,027
Pro forma compensation expense		(4,793)
Pro forma net income	$	93,234

10. STOCK BASED COMPENSATION: *continued*

Pro forma per share amounts:		
Basic net income per share as reported	$	–
Basic net income per share pro forma	$	–
Diluted net income per share as reported	$	–
Diluted net income per share pro forma	$	–

The pro forma amounts exclude the effect of options granted prior to July 1, 2002, and are based on the following assumptions in applying the Black-Scholes model:

Expected dividend yield	0.0%
Risk free interest rate	5.0%
Expected volatility	30.0%
Expected life (in years)	4.0

11. INCOME TAXES:

Total income taxes are different from the amount computed by applying the combined expected Canadian Federal and Provincial tax rate of 36.5% (2002 – 37.5%) to income before income taxes and other items. The reasons for the difference are as follows:

	2003	2002
Computed expected tax provision	$ **265,281**	$ 103,823
Add the following:		
Impact of change in federal and provincial tax rates	**24,121**	31,228
Large corporations and capital taxes	**70,000**	91,498
Change in valuation allowance	**134,500**	(33,466)
Non-deductible portion of write-down and unrealized losses on marketable securities	**134,500**	–
Non-deductible expenses	**367**	580
Total income taxes, as reported	$ **628,769**	$ 193,663

The components of the net future income tax asset (liabilities) at June 30, 2003 and 2002 are as follows:

	2003	2002
Future income tax assets:		
Non-capital losses	$ **1,055,000**	$ 1,229,628
Net capital and other losses	**924,000**	591,469
	1,979,000	1,821,097
Future income tax liabilities:		
Intangible assets	**(475,000)**	(480,233)
Property and equipment	**(1,025,000)**	(457,364)
	(1,500,500)	(937,597)
Valuation allowance	**(924,000)**	(789,500)
Net future income tax asset (liability)	$ **(445,500)**	$ 94,000

At June 30, 2003 the Corporation had cumulative income tax deductions totaling approximately $18,450,000, including reported non-capital losses for income tax purposes of approximately $2,890,000, which expire in the years 2006 to 2010.

Corporate tax returns are subject to assessment by taxation authorities in the normal course of business. The results of any assessments will be accounted for as a charge to earnings in the year in which they occur.

12. OTHER EXPENSES:

During the year ended June 30, 2002 the Corporation incurred expenses totaling $496,955 relating to the following:

Damaged inventory due to equipment failure	$ 309,220
Start-up costs relating to the modernization and expansion of production lines	187,735
	$ 496,955

13. SEGMENTED INFORMATION:

Reportable segments are identified on the basis of internal reporting to senior management. The Corporation operates primarily through two operating groups being: 1) food processing and distribution; and 2) real estate and rental properties. All operations are located in Canada.

Inter-segment eliminations relate to revenues between segments recorded at transfer prices based on current market prices. Operating margin represents total revenues less cost of sales, including depreciation. Operating expenses are comprised of interest, corporate, royalty, amortization and administrative charges. Identifiable assets by industry segment are the assets specifically attributable to those operations.

The following is an analysis of certain consolidated financial information by segment for the years ended June 30:

	2003	2002
Revenues:(1)		
Food processing and distribution	**$ 36,082,214**	$ 36,384,839
Real estate and rental properties	**859,264**	847,046
Inter-segment transactions	**(630,000)**	(630,000)
	$ 36,311,478	$ 36,601,885
Income before income taxes:		
Food processing and distribution	**$ 1,137,773**	$ 644,715
Real estate and rental properties	**122,812**	171,764
Inter-segment transactions	**(533,789)**	(539,619)
	$ 726,796	$ 276,860

(1) During the year ended June 30, 2003, sales totaling approximately $4,406,000 (2002 – $4,200,000) were made to customers located in the United States. In addition, the Corporation sold approximately $21,554,000 (2002 – $20,379,000) of product, representing approximately 59% (2002 – 56%) of revenues, to its five largest customers.

2003	Food processing and distribution	Real estate and rental properties	Total
Production equipment	**$ 11,103,463**	**$ 373,098**	**$ 11,476,561**
Buildings	**–**	**1,967,956**	**1,967,956**
Leasehold improvements	**1,097,790**	**17,467**	**1,115,257**
Vehicles	**199,436**	**–**	**199,436**
Land	**–**	**915,000**	**915,000**
	$ 12,400,689	**$ 3,273,521**	**$ 15,674,210**

13. SEGMENTED INFORMATION: *continued*

Food processing 2002	Real estate and and distribution	rental properties	Total
Production equipment	$ 11,484,620	$ 373,098	$ 11,857,718
Buildings	–	2,725,404	2,725,404
Leasehold improvements	1,150,654	19,409	1,170,063
Vehicles	161,908	–	161,908
Land	–	1,065,000	1,065,000
	$ 12,797,182	$ 4,182,911	$ 16,980,093

Expenditures on capital assets and other intangibles and depreciation and amortization:

	2003		2002	
	Expenditures on capital assets and other intangibles	**Depreciation and amortization**	Expenditures on capital assets and other intangibles	Depreciation and amortization
Food processing and distribution	**$1,028,731**	**$1,613,346**	$3,505,113	$1,578,879
Real estate and rental properties	**–**	**199,651**	–	202,915
	$1,028,731	**$1,812,997**	$3,505,113	$1,781,794

Total identifiable assets:

	2003	2002
Food processing and distribution(1)	**$25,523,769**	$25,642,102
Real estate and rental properties	**3,618,587**	4,036,638
	$29,142,356	$29,678,740

(1) Includes marketable securities.

14. FINANCIAL INSTRUMENTS:

(a) Fair values:

As at June 30, 2003 and 2002, the fair values of the Corporation's related party balances were considered undeterminable due to the inability to apply a valuation method or obtain market prices. The fair values of all other monetary assets, other than marketable securities (see note 2) and liabilities approximated their carrying values.

(b) Credit risk:

Credit risk arises from the possibility that the entities to which the Corporation provides services may experience difficulty and be unable to fulfill their obligations. The Corporation is exposed to financial risk that arises from the credit quality of the entities to which it provides services.

(c) Interest rate risk:

The Corporation is exposed to fluctuations in interest rates with respect to its bank loan, long-term debt and balances due to and from related parties.

15. COMMITMENT:

The Corporation has a royalty agreement with a company of which the chairman of the Corporation is the president but not a shareholder. The royalty agreement extends to June 30, 2004 and results in the Corporation having to pay an annual obligation equal to the lesser of:

(i) $360,000; or

(ii) 18% of the gross sales of a wholly-owned subsidiary of the Corporation.

16. CONTINGENCY:

A secured creditor of Sparrow Electric Corporation ("Sparrow"), a former subsidiary of the Corporation, has successfully appealed a court decision wherein Canada Customs and Revenue Agency ("CCRA") claimed priority over this creditor with respect to amounts owed by Sparrow regarding unpaid statutory deductions. CCRA may have a potential claim of up to $925,000 against the directors of Sparrow. While the Corporation has a policy of indemnification for the directors of Sparrow, there is uncertainty as to whether the indemnification would be applicable in this circumstance. In addition, the Corporation has been advised by its legal counsel that on the basis of the facts presently known with respect to CCRA's claim, the Corporation would have a good defense to an indemnification claim. As a result, no amount has been accrued as a liability and expense within these consolidated financial statements. In the event that CCRA successfully brings a claim against the directors of Sparrow and the Corporation is found liable in a court of law for this claim as a result of the director indemnification, the resulting settlement will be accounted for as a charge to net income in the period in which the settlement occurs.

17. SUPPLEMENTAL CASH FLOW DISCLOSURE:

(a) Changes in non-cash working capital:

	2003	2002
Marketable securities	**$ (1,458,617)**	$ (1,422,858)
Accounts receivable	**(16,289)**	275,812
Inventory	**71,216**	999,972
Prepaid expenses	**57,504**	(14,273)
Accounts payable and other liabilities	**947,030**	50,795
	$ (399,156)	$ (110,552)

(b) Cash payments:

The following approximate cash payments were made:

	2003	2002
Interest	**$ 1,003,000**	$ 889,000
Taxes	**$ 68,000**	$ 42,000

18. SUBSEQUENT EVENT:

Subsequent to June 30, 2003 the Corporation repurchased 113,000 common shares for cash consideration totaling approximately $122,000.

BEAUMONT SELECT CORPORATIONS INC.